

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 EA-10 ISO-00 TRSE-00 CTME-00 COME-00

STR-07 FTC-01 L-03 CIAE-00 INR-10 NSAE-00 INT-05

/055 W

-----068828 150859Z /12

P R 150752Z JUN 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 1677

INFO AMCONSUL CAPE TOWN

AMCONSUL JOHANNESBURG

AMEMBASSY PRETORIA

AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 SEOUL 5101

TOKYO FOR REG CUSTOMS ATTACHE

E.O. 11652: N/A

TAGS: ETRD, EIND, KS

SUBJ: TRIGGER PRICE MECHANISM: REQUEST FOR HOME MARKET PRICE AND
PRODUCTION COST DATA

REF: STATE 145857

SUMMARY: REFTEL REQUESTED DATA ON DOMESTIC PRICES AND
PRODUCTION COSTS OF COLD ROLLED AND GALVANIZED CARBON SHEET
STEEL IN THE ROK. THIS MESSAGE REPORTS PARTIAL INFORMATION
IN RESPONSE REFTEL. END SUMMARY.

1. COLD ROLLED STEEL IS PRODUCED BY POHANG IRON AND STEEL
CO. (POSCO), KOREA'S ONLY BASIC STEEL MANUFACTURER, AND BY
ILSSHIN STEEL COMPANY AND UNION STEEL MFG COMPANY WHICH
PRODUCE THE COLD ROLLS FROM HOT COIL SUPPLIED EITHER BY POSCO
OR IMPORTED FROM JAPAN. DOMESTIC PRICES ARE SUBJECT TO
GOVERNMENT CEILING PRICES SET IN APRIL 1976 WHICH HAVE NOT
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BEEN CHANGED SINCE THAT TIME. DOMESTIC DEMAND HAS BEEN HIGH
FOR THAT PRODUCT, HOWEVER PRICES ARE NOT PUSHING AGAINST
THE CEILINGS AS FAR AS WE CAN DETERMINE.

2. CEILING PRICES (INCLUDING DELIVERY) FOR COLD ROLLED
STEEL ARE AS FOLLOWS (DOMESTIC DEMAND IS CHIEFLY FOR SHEETS
RATHER THAN COILS WHICH ONLY THE LARGEST FIRMS CAN HANDLE -

NO EXTRAS):

INLAND PRICE LIST OF C.R. SHEET

THICKNESS (MM)	PRICE (WON/MT)
0.2-0.3	178,763
0.33-0.4	173,190
0.45-0.8	162,227
0.9-2.3	160,972
2.31	171,745

DISCOUNTS:

1) COIL	-5,000
2) SECOND GRADE	-15,000
3) IRREGULAR	-6,000
4) IRR COIL	-11,000
5) SECOND GRADE IRR	
COIL	-26,000

EXCEPT AS INDICATED, NO REPEAT NO OTHER DISCOUNTS ARE GIVEN. HOWEVER, FOR LARGE QUANTITIES COMPANIES ALLOW GRACE PERIODS ON PAYMENT WHICH REDUCE THE PRICE BY 1.5 PERCENT PER MONTH. IMPORTING FIRMS USE JIS (G3131) RIMMED STEEL HOT COIL WHICH THEY ROLL TO KIS 3512 OR KIS SPHT-1 (COMMERCIAL GRADES).

3. PRODUCTION COSTS: BASIC COST IS THAT FOR JIS 3131 C & F PUSAN PLUS ROLLING HANDLING AND DELIVERY EXPENSES. LIMITED OFFICIAL USE

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FIRMS HAVE NOT BEEN ABLE TO PROVIDE COST BREAKDOWNS FOR COLD ROLLED WITHIN TIME LIMITS ESTABLISHED TO GATHER THAT INFORMATION.

4. GALVANIZED CARBON SHEET: ALL THREE FIRMS MANUFACTURE GALVANIZED CARBON SHEET BUT ONLY POSCO EXPORTS IT. ILSSHIN AND UNION SELL THEIR TOTAL PRODUCTION DOMESTICALLY EVEN THOUGH THEY UNDERSTAND THAT THE INTERNATIONAL PRICE IS \$40 ABOVE THE TRIGGER PRICE.

5. EX FACTORY CEILING PRICES FOR GALVANIZED CARBON SHEET ARE AS FOLLOWS:

SIZE (MM X FT X FT)	PRICE
0.23 X 3 X 6	WON 751
0.20 X 3 X 6	WON 723
1.20 X 3 X 6	WON 3,191
0.25 X 3 X 6	WON 789
0.35 X 3 X 6	WON 1,140
0.55 X 3 X 6	WON 1,633

6. UNION AND ILSSHIN HAVE STATED THAT REASON FOR THEIR NON

EXPORT OF THIS PRODUCT IS THAT DOMESTIC PRODUCTION COSTS, PARTICULARLY WHERE ELECTROLYTIC COATING PROCESS RATHER THAN HOT DIP IS USED, ARE RELATIVELY HIGH AND QUALITY CONTROL REQUIREMENTS OF DOMESTIC CUSTOMERS ARE NOT AS RIGOROUS AS FOR EXPORT CLIENTS. FIRM REPRESENTATIVES SAID THAT THEY WOULD ATTEMPT TO GET COST BREAKDOWN.

7. IN GENERAL TERMS, KOREAN STEEL PRODUCTION IS MUCH MORE COST EFFICIENT THAN THAT OF JAPAN, MILLS HAVE BEEN RUNNING AT FULL CAPACITY FOR OVER TWO YEARS AND HAVE ENJOYED ECONOMY THAT AFFORDS. THE FIRMS HAVE ALSO HAD THEIR OWN TRANSPORTATION ARMS FOR DELIVERY TO CUSTOMERS AND ENJOY THE ADVANTAGE OF SEASIDE LOCATIONS WITH IMMEDIATE ACCESS TO WATERBORNE IMPORTED RAW MATERIALS. MOREOVER, CONSTRUCTION COSTS PER TON OF OUTPUT LIMITED OFFICIAL USE

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FOR STEEL MANUFACTURING PLANS IN KOREA HAVE BEEN ABOUT ONE THIRD OF COMPARABLE COSTS IN THE ADVANCED COUNTRIES. LABOR COSTS, OF COURSE, HAVE PROVIDED MAJOR ECONOMIC ADVANTAGE OVER OTHER PRODUCERS. AVERAGE EARNINGS IN STEEL INDUSTRY FOR 60 HOUR WEEK IN MARCH 1978 WERE WON 109,957 FOR PRODUCTION WORKERS AND WON 165,357 FOR ADMINISTRATIVE STAFF. BANK OF KOREA FINANCIAL STATEMENTS ANALYSIS FOR 1976 PROVIDES THE FOLLOWING COMPOSITE MANUFACTURING COST STATEMENT FOR ALL KOREAN IRON AND STEEL MANUFACTURERS:

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TOKYO FOR REG CUSTOMS ATTACHE

	WON MILLIONS	PERCENT	
TOTAL COST OF MANUFACTURING	603,179	100.0	
MATERIALS COST	492,796	81.7	
LABOR COST	29,628	4.9	
SALARIES, WAGES AND OTHER			
ALLOWANCES	26,470	4.4	
RETIREMENT ALLOWANCES	2,139	0.4	
LABOR COST ON ODD JOBS	1,019	0.2	
MANUFACTURING EXPENSES	80,755	13.4	
WELFARE AND CONVEINIENCES	950	0.2	
ELECTRIC POWER	24,551	4.1	
WATER, HEAT AND LIGHT	1,671	0.3	
DEPRECIATION	26,083	4.3	
TAXES AND PUBLIC IMPOSTS	1,001	0.2	
RENTAL EXPENSES	576	0.1	
INSURANCE EXPENSES	1,073	0.2	
REPAIR AND MAINTENANCE	2,226	0.4	
PROCESSING FOR OUTSIDE			
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ORDERS	3,736	0.6	
MISCELLANEOUS	18,888	3.1	
INITIAL INVENTORY OF GOODS			
IN PROCESS	27,824	4.6	
TRANSFERRALS TO OTHER			
ACCOUNTS	57,382	9.5	
COST OF GOODS MANUFACTURED	541,568	89.8	

9. APRIL F.O.B. PRICE AVERAGE FOR JAPANESE HOT ROLLS WAS \$270 PER METRIC TON. EXCHANGE RATE IS WON 485 TO \$1. ALL FIGURES LATEST AVAILABLE. LABOR COST INPUT IN BASIC STEEL WOULD HAVE INCREASED BY 43 PERCENT IN 1977 AND 25 PERCENT IN 1978, BUT MATERIALS COSTS REMAINED FAIRLY STABLE THROUGH 1977.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MARKETS, STEEL, PRICE DATA, PRICE CONTROLS, PRODUCTION DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 15 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SEOUL05101
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780249-1219
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780655/aaaabvqx.tel
Line Count: 214
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8f8c6088-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 145857
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2338083
Secure: OPEN
Status: NATIVE
Subject: TRIGGER PRICE MECHANISM: REQUEST FOR HOME MARKET PRICE AND PRODUCTION COST DATA
TAGS: ETRD, EIND, KS
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/8f8c6088-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014